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Meeting Summary

December 2022

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Overview

The ISSB met in Montreal on Tuesday 13, Wednesday 14 and Thursday 15 December 2022. The following topics were discussed:

ISSB Consultation on Agenda Priorities

The ISSB has begun work on a Request for Information (RFI) as part of its consultation for developing its work plan. The RFI will include two main components: foundational work and potential projects. ISSB staff have conducted outreach and research activities to put together a short-list of potential projects to be considered for inclusion within the RFI. The four potential projects identified are biodiversity, including ecosystems, ecosystem services and other nature-related issues; human capital, with a focus on diversity, equity and inclusion (DEI); human rights, particularly in the context of the value chain, with a focus on worker, labour and community rights; and connectivity in reporting, management commentary and integrated reporting. The ISSB voted in favour of including these four projects, with the caveat that they are further built out to include an expanded description as well as explicit examples of subtopics within each potential project.

General Sustainability-related Disclosures

The ISSB decided to provide some clarifications to the proposals: the framing and objective of [draft] S1 in with respect to the relationship between value and sustainability; and identifying sustainability-related risks and opportunities and assessment of material information.

Climate-related Disclosures

The ISSB decided to address specific feedback received during the comment period in relation to the disclosure requirements for Scope 1 and 2 GHG Emissions. For Scope 3 GHG emissions the the ISSB decided to provide some disclosure relief, introduce a framework for measuring Scope 3 GHG emissions, provide relief related to an entity's value chain, require an entity to reassess the 'scope' of its sustainability-related risks and opportunities in its value chain only upon the occurrence of either a significant event or a significant change in circumstances, and confirm that no additional relief will be provided regarding the proposal that an entity is required to include information about which of the 15 Scope 3 GHG emissions categories described in the GHG Protocol Value Chain Standard are included within the entity's measure of Scope 3 GHG emissions. In relation to financed emissions, the ISSB decided to confirm the proposed disclosure requirements for financed emissions for three industries—Asset Management & Custody Activities, Commercial Banks and Insurance but not for the Investment Banking & Brokerage industry. The ISSB decided to make other more detailed changes recommended by the staff.

ISSB Consultation on Agenda Priorities

In this meeting, ISSB members commented on the short-list of proposals for new research and standard-setting projects to be included within the upcoming Request for Information.

Projects to be included in Request for Information (Agenda Paper 2)

Background

During the ISSB's October 2022 meeting, it updated its planned approach in preparing a Request for Information (RFI) to include two main components:

(a) Foundational work: An outline of committed work building upon the foundation established by IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*, once finalised
(b) Potential projects: A request for stakeholder feedback on a short list of proposals for new research and standard-setting projects that will be incremental to the foundational work

The ISSB staff have now conducted outreach and research activities to put together a short-list of potential projects to be considered for inclusion within the RFI. The purpose of this meeting was to allow ISSB members to provide thoughts and feedback on the staff's research and outreach activities, the recommended potential projects to be included within the RFI and an example of a potential project description. ISSB members were also asked whether they agree that each of the recommended projects should be included within the RFI.

The foundational work will include efforts to improve the Sustainability Accounting Standards Board (SASB) Standards, the continued enhancement of IFRS S2, and coordination with the International Accounting Standards Board (IASB) to ensure compatibility and avoid inconsistencies between the ISSB and IASB's respective requirements. As this work will be considered as part of the foundational work, it is not in scope for additional potential projects.

Summary of feedback and findings

The ISSB staff have scoped and prioritized a short list of potential projects to be included in the RFI by conducting various outreach and research activities to assess potential projects against the criteria for inclusion discussed in the July 2022 meeting.

The primary consideration when prioritising potential projects was the ability of the ISSB to make timely, meaningful progress on sustainability-related subject matters within the two-year work plan. Potential projects were prioritised based on investor interest, market demand and whether current, widely accepted standards for capital market-focused disclosures already exist.

The research and outreach activities resulted in the following four potential projects be discussed within the RFI:

Biodiversity, including ecosystems, ecosystem services and other nature-related issues: Biodiversity is defined as the variability among living organisms from all sources, it is a foundational characteristic of nature. This topic emerged as a priority because biodiversity has substantial implications for all capital market participants. Further, research and work on the topic is evolving at a significant pace however, no widely embraced disclosure practices currently exist.

Human capital, with a focus on diversity, equity and inclusion (DEI): Human capital refers to the manner in which an entity manages its employees as assets, rather than as a cost to the entity. This is a key topic due to high levels of investor interest and market demand, particularly surrounding the topic of DEI.

Human rights, particularly in the context of the value chain, with a focus on worker, labour and community rights: Given the increasing complexity of international supply chains and economies a growing number of investors view human rights information as relevant to their decision making. This topic was deemed a priority due to strong market interest and the opportunity for further research and standards within this space, building on existing materials.

Connectivity in reporting, management commentary and integrated reporting: The staff recommended that the RFI include a proposal for a joint project between the ISSB and IASB to develop guidance that enables entities to report connected discussion and analysis between their financial and sustainability-related financial disclosures. This project would further build on the principles of the Integrated Reporting Framework and ask for clarity on the interaction between management commentary and sustainability-related financial disclosures.

The staff proposed that for each of the four priority topics discussed above, the RFI includes a description of the topic, a discussion of why the topic is a priority together with a project description and the indicative size.

ISSB discussion

One ISSB member suggested the staff provide stakeholders with a better understanding of the size of each proposed topic to help clarify what is plausible for the ISSB to pursue given the trade-off between pace and quality of research.

The Chair raised the importance of focusing on how and why the markets will price human rights issues, as opposed to thinking of moral judgements. He highlighted the significance of considering dynamic materiality for each proposed topic.

An ISSB member questioned whether living wage should be integrated into labour rights under the proposed topic of human rights. The staff clarified that the subtopics suggested within the agenda paper surfaced as a result of initial research, however, through the comment period, there will be an opportunity for further refinement based on stakeholder priorities. Stakeholder feedback will help the staff to identify areas of focus for future research both within and between topics.

On the topic of connectivity in reporting, one ISSB member questioned whether 'digital reporting strategy' should be added as a subtopic to the proposed joint project. Another member recommended that the staff clarify the distinction between the three proposed research projects and the joint project; this distinction could assist in providing more clarity to stakeholders on what type of feedback the ISSB is requesting. Further, an ISSB member questioned whether the joint project should be considered as something that will be pursued by the ISSB regardless of the research topics considered—no final decision was made on this inquiry.

A common theme discussed was the trade-off between providing granular information to solicit specific, useful feedback from stakeholders and discussing each proposed topic in general terms to not rule out any areas of focus prematurely. One of the Vice-Chairs suggested the staff provide an initial, broad discussion of each proposed topic, followed by specific examples within each topic including a discussion of areas that have been explored by others (the European Union (EU), GRI, SASB, etc.).

Several ISSB members commented on the importance of reaching an audience that includes all voices, (including the Global South and Indigenous voices) when receiving feedback on the consultation. The staff agreed, indicating that the purpose of the RFI is to receive feedback from a variety of stakeholders, this will be kept front of mind going forward.

Multiple ISSB members commented on the importance of providing as much context to stakeholders as possible, as ISSB stakeholders are new to the IFRS due process. An ISSB member suggested the staff include further discussion of how feedback will be used by the ISSB. One of the Vice-Chairs commented that the staff should clarify that the ISSB will not only be considering the feedback received in their final decision, but that resourcing and efficiency in scope are other important considerations. Further, the ISSB would like to make it clear that in this stage of the process they are not deciding on priorities, they are determining which topics to perform a research plan over, however, not every research plan will result in a disclosure standard.

ISSB members were asked to vote on whether the four proposed topics should be included within the RFI: 13 of the 14 ISSB members voted in favour, with the caveat that the projects be further built out to include an expanded description as well as explicit examples of subtopics within each potential project.

General Sustainability-related Disclosures

At this meeting, the ISSB continued the discussions on IFRS S1, including the concept of value, the identification of sustainability-related risks and opportunities, and materiality judgements.

Cover note and summary of redeliberations (Agenda Paper 3)

At this meeting, the ISSB continued redeliberating the proposals in the Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ([draft] S1), including the concept of value, the identification of sustainability-related risks and opportunities, and materiality judgements.

Fundamental Concepts (Agenda Paper 3A)

The staff sought decisions from the ISSB on below recommendations to build on the feedback and tentative decisions from the Octocber ISSB meeting.

<u>Part 1: Value and sustainability</u>

Staff recommendation 1—Clarify the framing and objective of [draft] S1 to:

- Describe how the value created, preserved or eroded for an entity is inextricably linked to other stakeholders, society and the natural environment
- Describe how an entity relies on these resources and relationships to create value for itself and providers of financial capital
- Describe how, in interacting with these resources, an entity creates impacts and dependencies on them, which may positively or negatively affect the resources and relationships, and give rise to sustainability-related risks and opportunities that the entity is exposed to
- Describe how sustainability-related risks and opportunities can affect the entity's performance or prospects, influence its business model or strategy and create or erode the value of the entity or the returns for providers of financial capital over the short, medium and long term

Part 2: Identification of sustainability-related risks and opportunities and assessment of material information

Staff recommendation 2—Amend the [draft] S1 Illustrative Guidance to further expand and clarify how to identify sustainability-related risks and opportunities and how to assess and disclose material sustainability-related financial information to meet the objective and requirements of [draft] S1. The staff recommend expanding and clarifying the illustrative guidance by specifically addressing the following:

- Clarify the distinction and connection between identifying sustainability-related risks and opportunities that an entity needs to provide information about and disclosing material sustainability-related financial information (i.e. a two-step process)
- Provide further illustration on the identification of sustainability-related risks and opportunities to provide information about material sustainability-related financial information (the first step in the two-step process) by providing a general description, describing the factors and inputs to consider, illustrating a process that could be used as an example and emphasising which types of risks and opportunities to provide information about
- Provide further illustration on making materiality judgements in the context of sustainability-related financial disclosures (the second step in the two-step process) by discussing management judgement and entity-specific circumstances, primary users and the decisions they make, and making judgements in light of uncertain outcomes

Staff recommendation 3—Amend the [draft] S1 Illustrative Guidance by drawing on existing market resources (such as the SASB Implementation Primer) to provide further illustration of how preparers may approach the two-step process articulated above when their business activities span multiple industries (i.e. identifying sustainability-related risks and opportunities for disclosure and making materiality judgments). More specifically, the staff recommend amending the 'Industry-based SASB Standards' section of the illustrative guidance to add a specific example for how a conglomerate can use SASB Standards to inform the identification of sustainability-related risks and opportunities and the selection of metrics and other information.

ISSB discussion

Staff recommendation 1

All ISSB members agreed with the staff recommendation 1 but provided the following comments at the same time:

- The "two concepts of value" as set out in the paper may create a communication gap between the entity and its stakeholders and may also not be helpful for preparers. All ISSB members suggested that the staff focus on value as a whole rather than creating a subset of values

- Natural environment should not be considered as one of the other stakeholders and a reporting entity could not create value for nature. Therefore, all members agreed that nature should be removed from the concept of value
- One member received many comments from the Japanese market after the ISSB decided to remove enterprise value from [draft] S1 and the comments expressed concerns on what alternatives would be used to replace enterprise value. He considered ‘value for other stakeholders’ to be too broad for capital markets and it should therefore be redefined
- Some members stated that “capitals” as defined in the Integrated Reporting Framework (“IR Framework”) may create confusion for certain stakeholders who are not familiar with the IR framework, and therefore, it may not be globally and generally accepted
- One member further questioned the difference between “capitals” and the “resources and relationships” stated in the [draft] S1. Another member also said that “capitals” should be well defined in [draft] S1 rather than merely adding a reference in illustrative guidance. The staff agreed to focus on “resources and relationships” rather than “capitals”
- All members emphasised the importance of time horizons and said that the current staff paper lacks sufficient discussion on this area. They asked for a more thorough analysis in a future paper
- The term “financial users” should be used rather than “financial capital”. One of the Vice-Chairs supplemented that it could also interpreted as “primary users of financial statements”
- The staff was advised to describe the notion of sustainability rather than providing a definition. Sustainability will be described in IFRS S1 as the ability for a company to sustainably maintain resources and relationships with and manage its dependencies and impacts within its whole business ecosystem over the short, medium and long term
- One member expressed concerns on disclosing sustainability information related to culture which is not easy to measure and asked the staff to further consider this
- One of the Vice-Chairs asked for an interim opportunity for all ISSB members to read the draft before the [draft] S1 is finalised

<u>Staff recommendations 2 and 3</u>

All ISSB members agreed with the staff recommendations 2 and 3 but provided comments as follows at the same time:

- ISSB members generally supported the guidance and illustration proposed for the two-step process and said it would be useful for preparers. However, a few ISSB members said that the concept of materiality was inseparable from the first step and the [draft] S1 should highlight that the materiality assessment would apply for the entire [draft] S1. A few ISSB members also suggested drafting to the staff for capturing culture within the process. All ISSB members agreed with these views and suggestions
- One of the Vice-Chairs explained why the ISSB would like to emphasise the concept of materiality. This is because she observed much misunderstanding from the market for the differences between mandatory disclosure and required disclosure if the information is material. She further used [draft] S2 as an example and explained that a reporting entity may consider whether it needs to provide climate information as a first step and decide upon disclosing which particular piece of information (e.g. Scope 1, 2 or 3 emission) could influence investors decisions in a second step
- Reporting entities should acknowledge that the two-step process was only a tool and it should be their responsibility to apply judgement on their entity-specific materiality assessment
- All ISSB members agreed that recommendation 3 should not be jurisdictional or conglomerate-focused. Instead, it should be a wider concept that may even support smaller entities

- One ISSB member suggested that the staff further develop the ISSB's own principles and concepts instead of making references to other standards. One of the Vice-Chairs confirmed that the staff was working on that
- One ISSB member suggested that the staff should further consider adding company responses to risks and opportunities to [draft] S1. [Draft] S1 should require explanations on entity-specific decisions and strategies
- The staff confirmed they would work closely with the IASB's Management Commentary project team to ensure that there is no contradicting language within IFRS Sustainability Disclosure Standards. One of the Vice-Chairs then confirmed that the progress of the IASB's Management Commentary project would not affect the issuance of IFRS Sustainability Disclosure Standards

Climate-related Disclosures

At this meeting, the ISSB continued redeliberating the proposals in the Exposure Draft IFRS S2 *Climate-related Disclosure.*

Cover note and summary of redeliberations (Agenda Paper 4)

At this meeting, the ISSB continued redeliberating the proposals in the Exposure Draft (ED) IFRS S2 *Climate-related Disclosure* ([draft] S2), in particular, by continuing the redeliberations of:

- The proposed requirement in paragraph 21(a) on GHG emissions, including disclosure of GHG emissions intensity, disclosure of GHG emissions by its constituent gases, disclosure of market-based and location-based Scope 2 GHG emissions and relief for the disclosure of Scope 3 GHG emissions
- The proposed industry-based requirements in Appendix B of [draft] S2, including the scope of changes to the content in Appendix B as part of finalising [draft] S2 and the draft plan to further develop the content in Appendix B in the future
- The proposed requirements on financed and facilitated emissions, including the location and status of the requirements and the technical content of the requirements

Greenhouse gas emissions (Agenda Paper 4A)

In its October meeting, in relation to the proposed requirements on the disclosure of Scope 1 and Scope 2 GHG emissions, the ISSB tentatively decided to proceed with the proposed requirements for an entity to disclose:

- Its absolute gross GHG emissions generated during the reporting period, expressed as metric tonnes of CO_2e, for its Scope 1 and Scope 2 GHG emissions
- The approach it used to include its Scope 1 and Scope 2 GHG emissions for the unconsolidated investees (ie associates, joint ventures, unconsolidated subsidiaries or affiliates not included in paragraph 21(a)(iii)(1) of [draft] S2
- The reason, or reasons, for the entity's choice of approach required by paragraph 21(a)(iv) of [draft] S2, and how that relates to the disclosure objective in paragraph 19 of [draft] S2

Furthermore, the ISSB decided to proceed with, but clarify, the proposed requirements for an entity to disclose its Scope 1 and Scope 2 GHG emissions disaggregated by:

- The consolidated accounting group (i.e. the entity's parent and its subsidiaries)
- The unconsolidated investees

At this meeting, the ISSB's discussions built upon its previous redeliberations and its discussions focussed on additional recommendations that would address specific feedback received during the comment period.

Staff recommendation

The staff recommended that the ISSB:

- Remove the proposed requirement to disclose emissions intensity from paragraph 21(a)(ii) of [draft] S2
- Confirm that disclosure of GHG emissions is not explicitly required to be disaggregated by constituent gases
- Introduce a requirement for entities to use Global Warming Potential (GWP) values based on the latest Intergovernmental Panel on Climate Change (IPCC) assessment
- Introduce a requirement for entities to disclose information that enables users of general purpose financial reporting to understand the inputs, assumptions and estimation techniques an entity has used to measure its GHG emissions and why these inputs, assumptions and estimation techniques are relevant to its GHG emissions. As part of this, the staff recommended that the ISSB require an entity to also disclose information about changes in the estimation techniques or significant assumptions made during the reporting period
- Clarify that entities are required to disclose their Scope 2 GHG emissions based on both a market-based and location-based approach

ISSB discussion

The ISSB first discussed the staff recommendations to remove the proposed requirement to disclose GHG emissions intensity and confirming not providing any explicit requirement to disaggregate GHG emissions by constituent gases. ISSB members' reactions to the staff recommendation to remove the requirement to disclose GHG emissions intensity were mixed.

One ISSB member observed that not providing information on GHG emissions intensity does not take away users' ability to calculate the emissions intensity on their own. They could still do so by using the information publicly available elsewhere or obtaining the information from a third-party data providers. Another ISSB member, however, commented that users' ability to obtain an entity's GHG emission by either of the ways mentioned above does not justify removing the proposed requirement. He was concerned that it may set an unwanted precedent in other cases.

A few ISSB members observed that if an entity is managing to an intensity metric different from what users choose to use, then that difference in itself should be useful information to users. One of them said that it would not seem onerous for an entity to disclose GHG emissions intensity.

Showing support for the staff recommendation because of no common denominator suitable for all situations, one ISSB member suggested that voluntarily providing information about GHG emissions intensity would not obscure required disclosure. She noted that such disclosure might be material for an entity and might also even be necessary to meet jurisdictional requirement.

A few ISSB members said that if the ISSB were to require disclosure of GHG emissions intensity, it would also have to prescribe how to calculate emissions intensity (i.e. prescribing the numerator and the denominator). They commented that this would be difficult because the relevance of the denominator would be different depending on industries. Another ISSB observed that disclosure of particular ratio is rarely required for financial reporting. He said that earning per share (EPS) information is one example but the information on emissions intensity is different from EPS information in that it would be difficult to specify a particular denominator for emissions intensity.

One ISSB member suggested that the if the ISSB decides to remove the proposed requirement to disclose emissions intensity, it should be careful not to give a wrong impression that information about emissions intensity is not important.

With respect to the staff recommendation to disaggregation, ISSB members were generally supportive of the recommendation.

Some ISSB members observed that whether disaggregation is explicitly required in this respect should not result in a different outcome. This is because information would be disaggregatd if material even when not explicitly required and information would be aggregated even when disaggregation is explicitly required if disaggregated information would be immaterial. One of them commented that he would prefer requiring disclosure unless immaterial, which he said would lead to better disclosure overall.

Agreeing that explicitly requiring or not would lead to the same outcome, one of the Vice-Chairs supported the staff recommendation because information would be typically aggregated and it would be for particular industries and circumstances in which disaggregated information would be material.

One of the ISSB members commented that requiring disaggregated information by constituent gases might not lead to the best way to use company resources to convey information. He also noted that the ISSB should provide standardised guidance around when certain types of disaggregation are likely to be helpful. He further noted that such guidance can relate to business activities more than to the whole entity level.

One of the Vice Chairs expressed preferrence not to provide a cross reference to the guidance in [draft] S1 on aggregation/disaggregation because of the risk of unintended consequences.

The ISSB then discussed the staff recommendation to require use of both a location-based and market-based approach in measuring Scope 2 GHG emissions.

Noting that there was not much feedback from respondents to [draft] S2 requesting both approaches to be used in measuring Scope 2 GHG emissions, a few ISSB members said they were surprised by this staff recommendation. One of them observed that she would not see them as two different approaches but that she would see them as two different inputs that result in two different answers to two different questions. She said that requiring disclosure of Scope 2 GHG emissions based on two approaches may create confusions for users. She and other ISSB members, including the Chair, said that the location-based approach is more widely used.

One of the Vice-Chairs asked the staff why the staff recommended use of both approaches instead of requiring the location-based approach while being silent on or allowing the provision of the market-based information as an extra piece of information. The staff explained that some respondents to [draft] S2 had suggested use of both approaches, which was a starting point for the staff recommendation. The staff further explained that information based on the location-based and market-based approach would provide indicators of different types of transition risks and that its relationship was similar to the relationship between the disclosure of the gross GHG emissions and carbon offsets, the latter being a means to mitigate climate-related risks.

Many ISSB members suggested that an entity should be able to explain what mechanisms it uses to manage its emissions, but that it should not go so far as requiring the entity to disclose Scope 2 GHG emissions based on a market-based approach as well.

There was little discussion relating to the rest of the staff recommendations, but the staff clarified that the GWP values in the latest assessment by the IPCC which the staff recommended requiring an entity to use are the ones based on a 100-year time horizon.

ISSB decision

9 of 14 ISSB members agreed with the staff recommendation to remove the proposed requirement to disclose GHG emissions intensity.

12 of 14 ISSB members agreed with the staff recommendation to confirm that [draft] S2 include no explicit requirement to disaggregate disclosure of GHG emissions by constituent gases.

13 of 14 ISSB members agreed to amend the requirement in [draft] S2 so that in disclosing its Scope 2 GHG emissions, an entity would be required to use the location-based method along with relevant information about contractual instruments related to managing energy it has purchased.

All ISSB members agreed with the staff recommendations relating to introducing a requirement for an entity to (1) use the GWP values in the latest assessment by the IPCC, based on a 100-year time horizon and (2) disclose information that would enable users of general purpose financial reporting to understand how and why the entity has used specific inputs, assumptions and estimation techniques to measure its GHG emissions, along with any changes in the estimation techniques it uses and changes in significant assumptions it makes during the reporting period.

Scope 3 greenhouse gas emissions (Agenda Paper 4B)

In its October meeting, the ISSB began its redeliberations on the proposed requirements relating to Scope 3 GHG emissions and tentatively decided:

- To proceed with its proposal to require an entity to disclose its Scope 3 GHG emissions (when material), subject to relief that would address the data availability and data quality challenges raised by respondents in the consultation
- To confirm that such a disclosure would include information about which of the 15 Scope 3 GHG emissions categories described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (GHG Protocol Value Chain Standard) are included within the entity's measure of Scope 3 GHG emissions
- That relief would be provided with the publication of IFRS S2 to assist with data availability and data quality challenges associated with Scope 3 GHG emissions

Furthermore, at that meeting, the ISSB asked the staff to provide an analysis on whether an entity should be exempt from the disclosure described in the second item above if the entity is not using the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (the GHG Protocol Corporate Standard), which was subject to decision-making discussions by the ISSB at this meeting.

At this meeting, the ISSB also continued redeliberating reliefs to address the data availability and data quality challenges raised by respondents in the consultation.

Staff recommendation

The staff recommended that the ISSB:

- Introduce reliefs for Scope 3 GHG emissions disclosures. Specifically:
    - A temporary exemption from the proposed requirement to disclose Scope 3 GHG emissions for a minimum of one year following the effective date of IFRS S2
    - Relief so that an entity's measurement of Scope 3 GHG emissions can include GHG emissions information that is not aligned with its reporting period when the GHG emission information is obtained from entities in its value chain with a reporting cycle that is not aligned to that of the preparer, subject to specific conditions

- Introduce a framework for how an entity measures its Scope 3 GHG emissions, with accompanying requirements for an entity to disclose information that enables users of general purpose financial reporting to understand how the entity measured its Scope 3 GHG emissions
- Introduce relief related to an entity's value chain. Specifically:
    - Implementation ('non-mandatory') guidance to support an entity in assessing which sustainability-related risks and opportunities in the value chain are relevant to users of general purpose financial reporting, using Scope 3 GHG emissions as an example
    - Require an entity to reassess the 'scope' of its sustainability-related risks and opportunities in its value chain only upon the occurrence of either a significant event or a significant change in circumstances
- Confirm that no additional relief would be provided regarding the proposal that an entity is required to include information about which of the 15 Scope 3 GHG emissions categories described in the GHG Protocol Value Chain Standard are included within the entity's measure of Scope 3 GHG emissions

ISSB discussion

The ISSB first discussed the staff recommendations for reliefs relating to the temporary exemption from providing Scope 3 GHG emissions disclosure, difference in reporting period and an entity's value chain (ie provision of non-mandatory implementation guidance and reassessment of the scope of the entity's value chain). ISSB members were generally supportive of these recommendations.

The Chair shared that he had not received any questions from members of the jurisdictional working group about this topic whereas the feedback to the [draft] S2 showed a lot of concerns regarding Scope 3 GHG emissions disclsoure requirement. He said this shows the progress and the improvement that the ISSB has made since the publication of the [draft] S2.

One ISSB member expressed disagreement with the staff proposal to provide a temporary exemption from disclosing Scope 3 GHG emissions for a minimum of one year. He suggested that other reliefs that the ISSB had already tentatively decided to provide relating to Scope 3 GHG emissions were sufficient. He said this additional relief could discourage entities from providing important informatio (i.e. Scope 3 GHG emissions). He and another ISSB member also expressed concerns that with this exemption, the timing in which entities would start providing Scope 3 GHG emissions would be very late, which could be 2026 or 2027, considering the target year of 2030 of Sustainable Development Goals.

Acknowledging the concern described above, another ISSB member expressed support for the staff recommendation because data quality of Scope 3 GHG emissions information that entities would rush to provide may not be good and that information with better quality even at later timing could be beneficial to users in their decision making.

One of the Vice-Chairs and another ISSB member said that it would be better to consider whether to provide a temporary exemption together with the length of such an exemption's availability. Referring to one year exemption similarly suggested by the U.S. climate-related standard and provided by the New Zealand climated-related standards, the ISSB member said that the length of the availability could be different depending on countries, especially those for countries in the global south. The Vice Chair also said that the temporary exemption, if the ISSB decided to provide, should be able to accommodate different stages of jurisdictions' readiness.

One of the Vice-Chairs expressed support for the staff recommendation for the relief relating to an alignment of reporting periods between the reporting entity and entities in its value chain. However, she made points about two of the three condisions suggested by the staff. The first condition she made points about was the one requiring the length of the reporting periods and any difference between the ends of the reporting periods to be the same from period to period. She suggested that considering there could be many entities in an entity's value chain, it would be too much to require any difference between the ends of the reporting periods to be the same from period to period.

The second condition she referred to was the one relating to adjusting for the effects of significant events and changes in circumstances that occur between the reporting date of the reporting entity and that of entities in its value chain. She asked whether this condition would require an entity to recalculate the amount if there is significant event or it would be enough only to explain such an event.

One ISSB member expressed a concern about the staff recommendation relating to the alignment of the reporting dates, pointing to an inconsistency of the treatment suggested here and the treatment specified in IFRS Accounting Standards. In certain circumstances, IFRS 10 and IAS 28 allow a reporting entity to have a different reporting date from its subsidiaries/associates as long as the difference does not exceed three months. He noted, however, that the relief suggested by the staff relate only to Scope 3 GHG emissions and does not extend to Scope 1 and Scope 2 GHG emissions.

One of the Vice-Chairs commented that while preparers may not have focussed on potentially having to reassess the scope of entities in their value chain, the relief suggested by staff about reassessment of the scope would be a very practical relief. She also noted that the draft European Sustainaiblity Reporting Standards (ESRS) have a variance of something similar to address a similar issue.

The ISSB then discussed the staff recommendation relating to introducing a framework for measuring Scope 3 GHG emissions, along with accompanying disclosure requirements to this framework. There was a general support from the ISSB members to introduce a framework for measuring Scope 3 GHG emissions, as described in Agenda Paper 4B. The ISSB's discussion on this topic focussed on the notion of impracticability and whether such a mechanisim is necessary.

Observing the staff recommendation would require an entity to disclose how the entity is managing (how it is 'thinking about') its Scope 3 GHG emissions if the entity determines it is impracticable to estimate them, one ISSB member questioned how such a disclosure could provide information useful for decision making. She suggested the ISSB should think through the right words for the requirement, if the ISSB decided to require this, because 'how an entity is managing' does not capture the activity the entity might be doing or how the entity is thinking about it.

Noting that the framework suggested by the staff does not mandate direct measurement of Scope 3 GHG emissions and that estimation approaches are acceptable, one of the Vice-Chairs asked why there would be a situation in which it would be impracticable for an entity to measure its Scope 3 GHG emissions. The staff responded by saying that the notion of impractibility is a very high hurdle and thus, they would not expect this to be used very often but that there could still be circumstances in which it actually is impracticable for an entity to measure its Scope 3 GHG emissions. The Vice-Chair expressed concerns about introducing the impracticability provision. One concern was that while it is well understood in the accounting world that the impracticability presents a very high hurdle, it may not be the case for sustainability reporting, which is new. Another concern was a signaling this could give to stakeholders. While the ISSB is trying to encourage preparers and jurisdictions to provide information of Scope 3 GHG emissions by accepting estimates for them, there is a risk that preparers might start to look for reasons why it is impracticable, which is an opposite type of bahaviour the ISSB is trying to encourage.

One ISSB member suggested that similar disclsoure that would be required if the entity determines it is impracticable to estimate Scope 3 GHG emission could also be required during a period in which an entity applies the temporary exemption from disclosing Scope 3 GHG emissions. The Chair commented that with the earlier decision to provide the temporary exemption from disclsoing Scope 3 GHG emissions it would be too much to provide the impracticability provision and therefore, he would not support this aspect of the recommendation.

IASB decision

13 of 14 ISSB members agreed with the staff recommendation to provide the temporary exemption from providing Scope 3 GHG emissions disclosure.

All ISSB members agreed with the staff recommendations relating to provision of non-mandatory implementation guidance and reassessment of the scope of the entity's value chain.

All ISSB members also agreed with the modified version of the staff recommendation for the relief relating to difference in reporting period between the reporting entity and entities in its value chain. The modifiation related to one of the conditions attached to the use of the relief, which is the length of the reporting periods and any difference having to be the same from period to period (ie removed from the staff suggestion the condition of any difference between the ends of the reporting periods having to be the same).

The ISSB then voted on introducing a framework for measuing Scope 3 GHG emissions, as described in paragraphs 48 and 50 in Agenda Paper 4B. All ISSB members agreed with the staff recommendation.

Then, the ISSB voted on introducing additional disclosures that come with the framework. All ISSB members agreed with the staff recommendation to require an entity to disclose the extent of the Scope 3 GHG emissions disclosure estimated using inputs (1) from specific activities in the entity's value chain ('primary data') and (2) that are verified.

12 of the ISSB members agreed with the staff recommendation to require an entity to disclose how the entity is managing (how it is 'thinking about') its Scope 3 GHG emissions if the entity determines it is impracticable to estimate its Scope 3 GHG emissions.

All ISSB members agreed with the staff recommendation that all entities should be required to include information about which of the 15 Scope 3 GHG emissions categories described in the GHG Protocol Value Chain Standard are included within the entity's measure of Scope 3 GHG emissions.

Appendix B (Agenda Paper 4C)

At its October meeting, the ISSB discussed industry-based materials, including the industry-based requirements set out in Appendix B to [draft] S2. The ISSB also tentatively agreed to:

(a) Maintain the requirement that entities provide industry-specific disclosures
(b) Classify the content in Appendix B as illustrative examples, while stating an intention to make Appendix B required in the future, subject to further consultation

The paper built on these decisions, with the objectives of:

(a) Presenting a recommendation regarding how the October decisions would be reflected in the Standard
(b) Presenting staff recommendations and seeking decisions from the ISSB regarding the scope of changes to content in Appendix B as part of its finalisation of S2
(c) Presenting and seeking the ISSB's feedback on staff's draft plan to further develop the content in Appendix B and transition it into a body of industry-based requirements associated with S2 in the future

Staff recommendation

The staff recommended that the ISSB amend the proposed requirements in [draft] S2 that make reference to Appendix B to reflect the updated status of the content.

Separately, the staff also recommended that the ISSB approve the following objectives for making enhancements to Appendix B as part of the finalisation of S2:

(a) Responding to stakeholder feedback regarding the international applicability of particular disclosure topics and metrics
(b) Addressing unintended inconsistencies identified:
    (i) Between Appendix B and the SASB Standards
    (ii) Between multiples instances of a particular metric used in different industry contexts within Appendix B
    (iii) Between Appendix B and IAS 16
(c) Addressing corrections of scope identified

ISSB discussion

ISSB members considered the paper the staff had prepared very helpful and was very supportive on the staff's recommendations since they are consistent to [draft] S1 and reflect the two decisions for industry-based materials in October 2022. The ISSB agreed to maintain the requirement in [draft] S2 that entities provide industry-specific disclosures and to classify the content in Appendix B as illustrative examples.

Parts of the discussion focused on the question as to whether two metrics in Volume B11 of Appendix B (*Oil & Gas – Exploration & Production*) should be aligned with IAS 16 *Property, Plant and Equipment* (EM-EP-420a.1 and EM-EP-420a.2 – distinguish between proved and probable reserves). The ISSB decided not to change the metrics for proven and probable reserves and have a more thorough debate of how the ISSB will address the differences when Appendix B will be subject to discussion.

For the rest of the paper, no decisions were made. Instead, ISSB members were asked on what the staff should consider when advancing Appendix B as a required part of S2.

One ISSB member emphasised to be cautious when streamlining different SASB metrics. For some of the staff's recommendations this could lead to less granular metrics (changed total fresh water withdrawn to total water withdrawn), while for other metrics changes seem to be more granular (metrics for the Apparel, Accessories & Footwear industry). Hence, the ISSB member suggested that changes should be consistent with quality and availability of resources.

In general, ISSB members were supportive of the staff's five phases for transitioning Appendix B into industry-based requirements. Based on those phases, the staff was asked to use the wider stakeholder body to gain more insights on the type of industry-specific information. Therefore, one ISSB Co-Chair additionally recommended analysing the comment letters and getting in contact with those that disagreed with industry-specific requirements to understand their perspective.

Financed and facilitated emissions (Agenda Paper 4D)

This paper continued the ISSB's redeliberations of financed and facilitated emissions. The proposed disclosure requirements for financed and facilitated emissions were set out in Volumes 15-18 of Appendix B to [draft] S2.

This built on the September 2022 agenda paper on financed and facilitated Emissions, which identified matters raised in stakeholder feedback for further consideration.

The staff noted that the proposals discussed, and the recommendations made in this paper should be considered in the light of related proposals and recommendations discussed under Agenda Paper 4B and Agenda Paper 4C above.

The objective of this paper was:

- To describe the staff's research and analysis of the matters raised in stakeholder feedback
- To provide staff recommendations to the ISSB about whether and how to address these matters

Staff recommendation

The staff recommendations relate to two aspects of the proposed requirements for financed and facilitated emissions:

- The location and status of the requirements
- The technical content of the requirements

First, with respect to the location and status of the requirements, the staff recommended that the ISSB:

- Confirm the proposed disclosure requirements for financed emissions. More specifically, to issue financed emissions disclosure requirements for three industries—Asset Management & Custody Activities, Commercial Banks and Insurance (subject to recommended amendments discussed later in this paper) and to make these disclosure requirements part of the required disclosures in S2 associated with the disclosure of Scope 3 GHG emissions, Category 15. Thus, these disclosure requirements for financed emissions would be within the 'main body' of S2, that is, included within the (required) application guidance rather than being part of Appendix B, which the ISSB has decided will initially not be required
- Remove the proposed disclosure requirements for facilitated emissions for the Investment Banking & Brokerage industry. Thus, these disclosures would not be included in S2, i.e. neither the main body of S2 nor in Appendix B

With respect to technical content, the staff recommended that the ISSB confirm the proposed requirements for the disclosure of financed emissions for the three industries described above, with targeted amendments. More specifically, the staff recommended that the ISSB confirm the following proposals for financed emissions, including:

- The use of the term 'financed emissions' in all three industries
- The requirement to aggregate disclosures at the total assets under management (AUM) level for the Asset Management & Custody Activities industry
- The requirements for an entity to describe its methodology for calculating financed emissions in all three industries
- The requirements for an entity to disclose the emissions intensity of its financed emissions per unit of physical or economic activity
- The use of the Global Industry Classification System (GICS) as the classification system for industry-based disclosure of financed emissions

The staff also recommended that the ISSB confirm, but clarify:

- The proposed requirements for undrawn loan commitments for the Commercial Banks and Insurance industries, which would require separate disclosure of both the financial exposures and emissions related to the commitments (as opposed to reporting one combined value)
- The proposed requirement that the Commercial Banks industry provide disclosure on a gross basis, that is, without consideration of risk mitigants

The staff also recommended targeted amendments to remove:

- All references to, and requirements to disaggregate disclosure by, 'carbon-related industries'
- Derivatives from the calculation of financed emissions

Finally, the staff noted the following areas to monitor for market developments, which may become areas of future consideration:

- Facilitated emissions for the Investment Banking & Brokerage industry
- 'Associated' emissions for the Insurance industry
- Emerging methodologies for financed emissions calculations for asset classes including derivatives
- Guidance/standardisation of emissions-intensity denominators (for example, industry-based)

ISSB discussions

With respect to the location, the discussions focused on the fact that the location of the disclosures for financed and facilitated emissions would impact their status and would influence the consistency of their application. Including financed emissions disclosures as part of the required disclosures of Scope 3 GHG emissions, Category 15 for the Asset Management & Custody Activities, Commercial Banks, and Insurance industries in S2 would make disclosures required if material and therefore increase comparability, because it uses defined metrics and does not allow to select only entity-specific disclosures. Therefore, the ISSB followed the staff's recommendations and decided that these disclosures should be included within S2 (as application guidance) rather than being retained in Appendix B as was proposed in [draft] S2. With respect to the status of the requirements, the ISSB decided to remove the proposed requirements for the disclosure of facilitated emissions for the Investment Banking & Brokerage industry—i.e. that no specific disclosures about facilitated emissions would be included for this industry. Both decisions were made with a strong majority.

With respect to the technical content of the requirements, ISSB members agreed with the staff's recommendation to use the term "financed emissions" in all three industries (Asset Management & Custody Activities, Commercial Banks and Insurance). The discussions relating to the staff's recommendation to aggregate disclosure at the total assets under management (AUM) level for entities in the Asset Management & Custody Activities industry highlighted the need to be more precise on the definition of AUM and on the question as to when also disaggregated information should be disclosed. Based on this discussion, ISSB members were not only asked whether they agree with the requirement to aggregate disclosures at the total AUM level for entities in the Asset Management & Custody Activities industry, but also whether it should be emphasised in the application guidance of the Standard that disaggregation is required if aggregation would obscure the disclosure of relevant information. ISSB members agreed with this. Furthermore, the ISSB members decided that the total AUM level should be explicitly defined and disclosed by each company. ISSB members also confirmed the requirement for an entity to describe its methodology for calculating financed emissions in all three industries and the use of the Global Industry Classification System (GICS) as the classification system for industry-based disclosure of financed emissions. Following an intense discussion on the emissions intensity of an entity's financed emissions, the ISSB did not follow the staff's recommendation and decided not to require an entity to disclose the emissions intensity of its financed emissions per unit of physical or economic activity.

Furthermore, the ISSB confirmed the proposals that set out an entity's approach to undrawn loan commitments, which would specify separate disclosure of both exposure and emissions, and the disclosure of financed emissions by Commercial Banks, explicitly requiring disclosure on a gross basis, excluding the effect of risk mitigants.

In addition, the ISSB agreed with the staff's recommendations to make targeted amendments to remove all references to, and requirements to, disaggregate disclosure by, 'carbon-related industries' and derivatives from inclusion in the required calculation of financed emissions.

For the last staff recommendations, no vote was made. Nevertheless, ISSB members supported the list of areas of practice, and highlighted the need to prioritise correctly and to ensure that disclosures become more targeted. In addition, the Chair raised the aspect of interoperability with the green taxonomy for the finance industry.